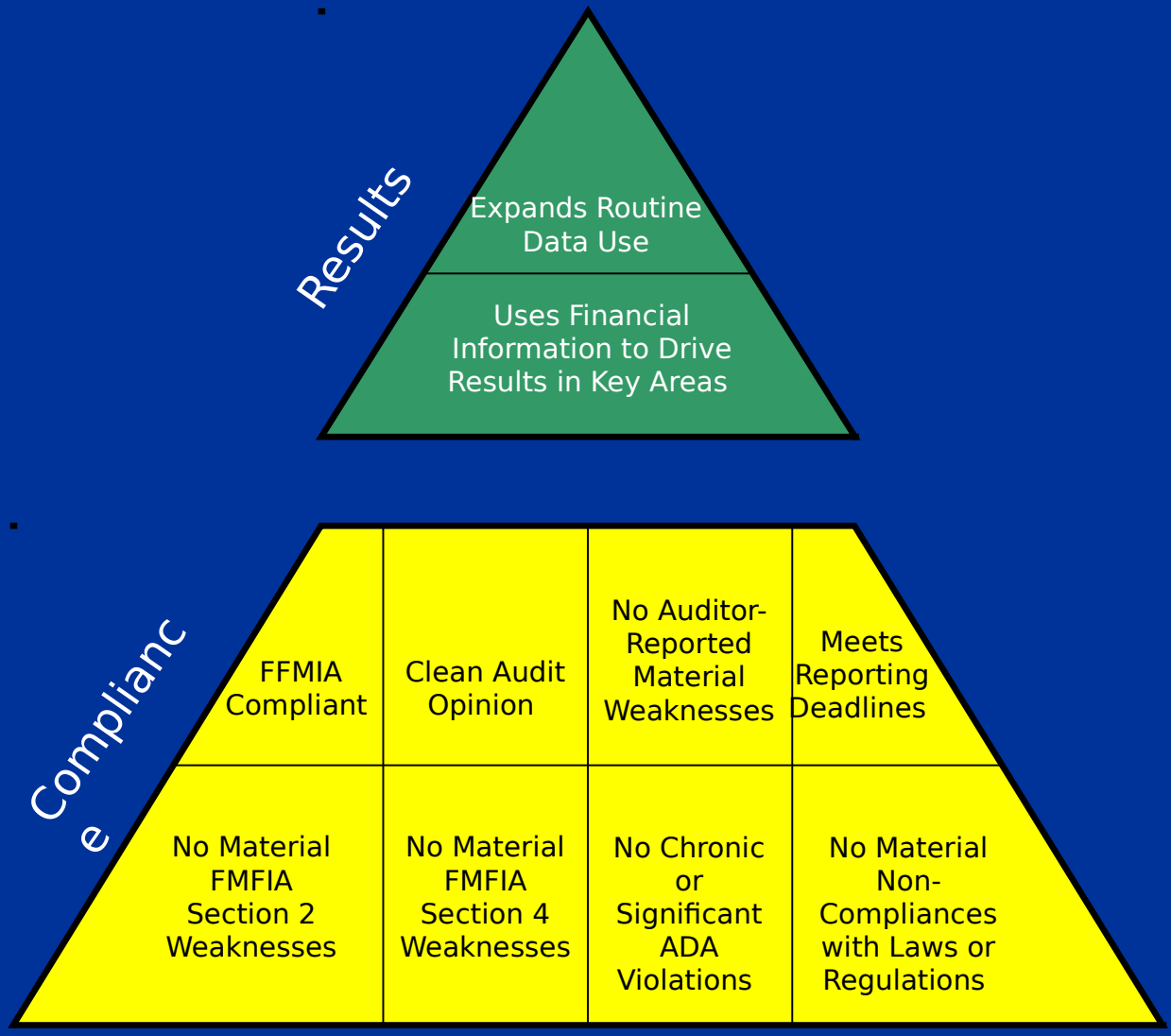
Strengthening Internal Control Over Financial Reporting:

OMB Circular A-123

Getting to Green in Financial Management


Results
Expands Routine Data Use
Uses Financial Information to Drive Results in Key Areas
Compliance
FFMIA Compliant
Clean Audit Opinion
No Auditor-Reported Material Weaknesses
Meets Reporting Deadlines
No Material FMFIA Section 2 Weaknesses
No Material FMFIA Section 4 Weaknesses
No Chronic or Significant ADA Violations
No Material Non-Compliances with Laws or Regulations

Laying the Groundwork for Improved Financial Performance

- **More timely** and **accurate** reporting
- **More** clean audit opinions
- **Reduce** material weaknesses
- **Improve** financial processes
- **Strengthen** internal controls

More efficient and disciplined Financial Processes:

What Happened in 2005?

- **Accelerated reporting** drove better processes
- Reconciliations and analyses performed *throughout* the year
- *Annual* “heroic efforts” unsustainable
- **New** government-wide **reporting process**

		Scores by Agency								
PMA Status	Agency	(1)	(2)	(3)	(4)	(5a)	(5b)	(6a)	(6b)	(6c)
		FBWT	Suspense	AR	EFT	Prompt Pay	Interest Penalties	Travel IBA	Travel CBA	Purchase Cards
R	AID	0.02%	95.18%	5.59%	97.74%	98.70%	0.0000%	2.55%	1.53%	0.00%
R	DHS	5.57%	24.54%	40.02%	75.00%	98.00%	0.0146%	2.00%	0.00%	1.00%
G	DOC	0.00%	41.06%	30.78%	94.44%	96.70%	0.0206%	1.60%	0.00%	0.00%
R	DOD	0.19%	74.57%	51.85%	94.30%	95.33%	0.0135%	4.70%	2.00%	2.44%
G	DOE	0.00%	61.79%	35.92%	95.97%	96.50%	0.0007%	3.40%	3.70%	0.00%
R	DOI	1.76%	65.91%	44.91%	92.63%	97.80%	0.0150%	2.97%	0.00%	0.00%
R	DOJ	0.01%	8.67%	52.34%	90.38%	94.00%	0.0073%	0.60%	0.20%	0.00%
G	DOL	0.00%	100.00%	51.50%	85.72%	96.00%	0.0041%	2.00%	0.00%	0.00%
G	DOS	2.16%	55.98%	51.11%	68.66%	85.00%	0.0135%	3.51%	0.38%	0.40%
R	DOT	2.18%	27.36%	37.03%	86.40%	89.05%	0.0062%	1.00%	0.20%	0.00%
G	ED	0.00%	59.84%	19.25%	98.59%	95.90%	0.0199%	1.45%	3.52%	0.00%
G	EPA	0.00%	4.48%	65.81%	89.16%	96.10%	0.0073%	3.80%	0.00%	0.00%
R	GSA	0.00%	19.32%	64.86%	91.94%	99.00%	0.0054%	2.00%	0.00%	0.00%
R	HHS	0.01%	55.83%	23.49%	97.58%	95.80%	0.0084%	2.50%	0.00%	0.00%
R	HUD	0.00%	5.43%	3.71%	83.38%	98.10%	0.0011%	2.30%	0.00%	0.00%
R	NASA	0.00%	35.05%	4.15%	100.00%	96.50%	0.0013%	3.58%	0.00%	16.82%
NA	NRC	0.00%	100.00%	2.97%	88.39%	91.58%	0.0029%	0.47%	0.00%	0.00%
G	NSF	0.00%	0.00%	0.61%	100.00%	99.70%	0.0025%	1.96%	0.00%	0.00%
R	OPM	22.00%	0.00%	32.77%	92.13%	92.00%	0.0108%	3.50%	0.00%	0.00%
R	SBA	0.00%	0.00%	36.69%	76.47%	97.35%	0.0124%	0.39%	0.00%	0.00%
G	SSA	0.92%	0.00%	13.86%	96.19%	97.30%	0.0036%	0.80%	0.00%	0.00%
R	TREAS	0.00%	83.50%	0.68%	100.00%	87.10%	0.0159%	0.50%	0.00%	0.00%
R	USDA	1.98%	89.29%	5.81%	98.58%	98.16%	0.0050%	4.11%	1.90%	0.00%
R	VA	0.30%	25.59%	25.80%	93.95%	96.50%	0.0128%	2.00%	0.00%	0.00%

Moving Ahead: Effective Internal Control

New Requirements

- Revisions to Circular A-123 (December 2004)
- Strengthened/more rigorous management assessment processes for financial controls

Ongoing Activities

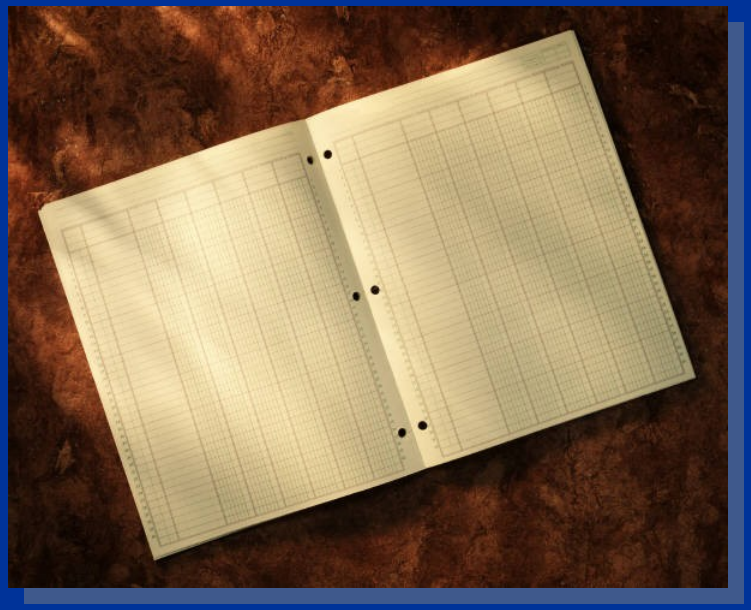
- Ongoing quarterly monitoring under PMA
- Ongoing audit testing / compliance reporting

Why did OMB Revise Circular A-123?

- President's Management Agenda
- Existing internal control weakness
- Influence of Sarbanes-Oxley (SOX)
- Provide a comprehensive internal control framework/standards

LARRY DOWNING/REUTERS

Revised Circular A-123 Emphasizes



- Effective internal control is a management responsibility
- Financial reporting controls (Appendix A)
- Integrated approach
  - Leverage existing activities
- Cost-effective Approach
  - Additional auditing under certain circumstances

Strengthened Assessment Process Management Requirements

- Requires a **strategic look** at **financial reporting risks**
- **Direct testing** of controls
- **Documentation** to support/validate results
- **New** management **assurance statements**

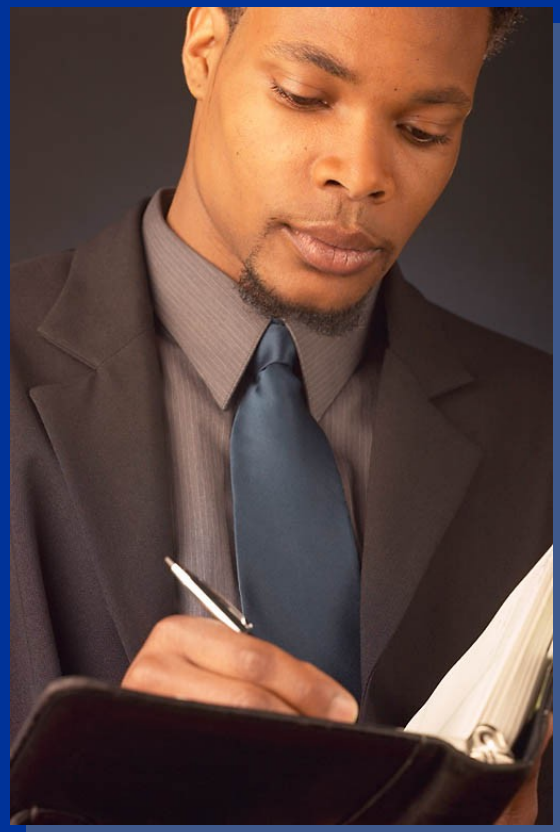
Important Management Judgments

- Scope = Breadth and Depth
  - Breadth
    - Financial reports included
  - Depth:
    - Processes supporting financial reports
    - Extent of work at major subsidiaries / locations
- Determining materiality
- Developing a testing approach
- Further implementation guidance

Seeking Efficiencies: Leveraging Baseline Activities

- FISMA
  - IT Security Review/Remediation
- IPIA
  - Assessment/Remediation
- Remediation activities
  - New controls/corrective actions
- SAS 70 reviews
- Other program review activities

A-123 Reporting Requirements



- Assessment as of June 30th
- Assurance statement reported in PAR (November)
- Three types of assurance statements
- Report material weaknesses in statement
- Summary of corrective actions

Implementation Guide: *The Process*

- Purpose of the guide
- How the guide was developed
- Scope/applicability of the guide
- Locate on our web site @ :

www.cfoc.gov

Implementation Guide Contents

- Introduction
- Step 1: Planning
- Step 2: Evaluating Control at the Entity Level
- Step 3: Evaluating Control at the Process Level
- Step 4: Testing
- Step 5: Concluding, Reporting, Correcting
- Exhibits
- Frequently Asked Questions

Next Steps

- A-123 Implementation Guide Final
  - www.cfoc.gov > CFO Council > Committees > Financial Management Policies and Practices
- Ongoing informal training sessions sponsored by the CFO Council

OMB Expectations

- Organizational approach decided
  - Form a senior assessment team
- Specific planning decisions underway
  - Scope
  - Materiality
  - ID baseline activities
  - Risk-based testing plan
- OMB ongoing discussions with agencies
- OMB working with agencies on plans and best practices

OFFM Contact Information

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Office of Federal Financial Management
Mission: To promote and support first class financial management in the executive branch of the Federal Government.
History: The Office of Federal Financial Management (OFFM) was created within the Office of Management and Budget (OMB) by the Chief Financial Officers (CFO) Act of 1990. OFFM, led by the OMB Controller under the direction of the Deputy Director for Management, is responsible for the financial management policy of the Federal Government. OFFM responsibilities include implementing the financial management improvement priorities of the President, establishing government-wide financial management policies of executive agencies, and carrying out the financial management functions of the CFO Act.
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Financial Management Systems
Done
Start
Office of Feder...
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